U20230-1
11/7/88

ECONOMIC NEWSLETTER

Russian Research Center
Harvard University

Volume XIII, No. 3
November 9, 1988

INDUSTRIAL PRODUCTION FIGURES FOR THE FIRST NINE MONTHS OF 1988

Product	Jan-Sept 1988	Jan-Sept 1988 as a % of Jan-Sept 1987
Electricity (billion kw hrs)	1245	102%
Petroleum (million tons)	468	100.3
Natural Gas (billion meters^3)	566	106
Coal (million tons)	579	102
Steel (million tons)	*	*
Fertilizer (million tons)	27.8	103
Metal-cutting tools (thousand units)	16.6	107
Robots	*	*
Computer tech. (billion rubles)	4.6	115
Tractors (million hp)	38.6	100.3
Paper (million tons)	4.7	102
Cement (million tons)	105	102
Meat (million tons)	9.2	104
Margarine (million tons)	1.1	102
Watches (million units)	55.2	106
Radios (million units)	6.0	99.5
TV sets (million units)	7.1	108
Automobiles (thousand units)	962	97

* not published

LIVESTOCK HERDS

Herd	Oct 1 1987	Oct 1 1988	%Change 1987-1988
Cattle	96.3	94.6	-1.7
Cows	28.9	28.6	-0.3
Hogs	60.9	60.7	-0.2
Sheep & Goats	123.8	123.7	-0.1
Poultry	791.3	799.4	+8.1

INDUSTRIAL PRODUCTION FIGURES FOR THE FIRST 3 QUARTERS OF 1988

The economic news coming out of Moscow on the whole is rather discouraging. Superficially the overall indices appear to be favorable. For example, Soviet authorities report that production of national income rose by 4.7% during the first nine months of 1988. In 1987, that figure grew only 2.4% over 1986. Certainly there was an increase in the overall volume of foreign trade. It was 2% for the first nine months of 1988 compared to a drop of 2% for the first nine months of 1987 over 1986. But generally, we have tried to avoid using composite indices. They have proven to be misleading. The need to be very circumspect about the use of Soviet figures was highlighted by the fact that the Soviets have just announced that their national budget was in deficit by a significant amount. Moreover, it turns out that the budget has been in deficit for the last decade. This has made Western observers much more circumspect about the use of Soviet statistics. But there are other figures which do indicate that there are some problems. These figures reflect production in individual industries and while they too leave something to be desired, they are more likely to be accurate because you are dealing with fewer indices and it is easier to report specific quantities of production.

What has to be discouraging, therefore, is the report about the increase in production of individual industries. For example, the generation of electric energy rose by only 1% in the month of September, compared to a year ago. Previously that figure was rising on a monthly basis at the level of 6 to 7%. Certainly oil production must be of great concern. Oil output in September 1988 dropped by 2%. Coal production was constant on a September to September basis. The Soviets omitted the production output of steel. The report for August indicated that the output in August 1988 was the same as it was in 1987. Whenever the Soviets omit a figure, the assumption is usually that they are embarrassed by it and this suggests that steel output also dropped. The only good news in these basic economy figures is that gas production for September rose 5%. For the whole nine months, it rose 6%.

We also now have some other indicators that are being released by the Soviets as part of *glasnost*. These are statistics we would normally not have on a nine month basis. The information, however, suggests just how serious Gorbachev's problem is. One of the most striking revelations is that construction of apartments is down by 4% for the nine months of 1988 compared to 1987. Housing construction in 1987 was one of the more impressive achievements the Soviets had and was a source of pride. Similarly, the nine month report places a good deal of stress on the fact that food production and availability has not improved. The statistics show, for example, the production of sugar is down by 11% from what it was during the first nine months of 1987. Sales of sugar did not fall as much, but nonetheless were 3% lower. The commentary that accompanies the statistical report indicates, however, that "despite the growth of volume of sales, there remains a very serious problem of providing the population with many products of food, especially meat." The report goes on to indicate that the assortment of potatoes and vegetables is also inadequate and that even so, there is very high spoilage in these commodities. Reflecting the problem, the report indicates that "in a series of places and for the purchase of goods of every day consumption (such as sugar, meat, sausage, confectionary products, butter and margarine, fruits and vegetables) the consumers are adversely affected and on the average must spend one hour every day trying to purchase such goods. For some products they must spend from one to three hours.

There is also information for the first time about prices. The Soviets acknowledge that in the collective farm markets, the prices have risen 2% on average from last year, and by 3% on meat, by 5% on potatoes, and by 8% on fruits. They go on to indicate that the level of collective farm market prices on average is 2.7 times higher than the prices in government shops and on some products, 5 to 8 times higher. The Soviets have published information elsewhere indicating that indeed inflation has become a concern, although it is probably still below 8% a year. This inflation, in part, has been set off by the fact that in order to finance the budget deficit, the Soviets have had to print additional currency.

There is also something worth noting about the format of the statistical report. Traditionally the first part of the report is dedicated to the production of industrial prodcts such as steel, machine tools and tractors. For the first time, consumer goods are moved to the front of the report and the heavy industry items are relegated to the back of the report.

LIVESTOCK HERDS

The Soviets continue to have difficulty with their livestock herds. The cattle herd dropped by 2%. There was also a decline in the size of the number of cows, pigs, sheep and goats, but the percentage was smaller. Nonetheless, it was a decline. Only the number of chickens increased, and this was an increase of 1%.

SOVIET BALANCE OF TRADE FIGURES WITH WESTERN EUROPE AND JAPAN

We had a description of these figures last month but neglected to include the table. We apologize for the inconvenience and have included the

Opinions and ideas expressed in the RRC Economic Newsletter are those of the author and not the Russian Research Center or Harvard University unless specifically stated as such.

RRC © 1988

SOVIET BALANCE OF TRADE WITH EASTERN EUROPE

As was the case last year, the Soviets seem to be extracting more from Eastern Europe than has normally been the case. Their trade deficit with the East European bloc as a whole was over 600 million rubles. Given that except for last year, the Soviets normally have a trade surplus with Eastern Europe, this is a decided change in emphasis. The only country where the Soviets export more than they import is the German Democratic Republic. For the first time in almost a decade, the Soviets now even import more from Poland than they export. This certainly suggests that for most of the countries in Eastern Europe, there is a new strain in their trade with the USSR.

ARDEN HOUSE 1989

The program for the 1989 Arden House Conference on American-Soviet Relations is now under preparation and will be mailed out in December.

The Arden House Conference is jointly sponsored by the Russian Research Center of Harvard University and the W. Averell Harriman Institute for the Advanced Study of the Soviet Union at Columbia University. Participants include senior level business executives, government officials, lawyers, journalists, and academic specialists. The topic for this year's discussions will be "American-Soviet Relations: Will a New American Administration Make a Difference?". Dates of the conference are March 31 through April 2, 1989. The conference is held at Arden House, formerly one of the summer residences of the W. Averell Harriman family, located approximately an hour and twenty minutes from New York City.

Panel topics will include "Political Restructuring," "Foreign Policy Relations," "Economic Reform Comes of Age," "Soviet Foreign Trade," "The Congressional View," "Soviet Sales to the West: Some New Opportunities," and "Operating in the Soviet Union: A New Commitment or the Same Old Thing?" For more information, contact Marshall Goldman or Catherine Reed, (617) 495-4485.

CORPORATE SPONSOR SEMINARS: ORIENTATION FOR JOURNALISTS CONFERENCE

"GORBACHEV AND CHANGE IN THE USSR: Implications for the Bush Administration"

The second Corporate Sponsor Seminar for the 1988-89 year will take place on November 28, 1988, at the Harvard Faculty Club. Panel topics will cover arms control, social policy, domestic reform and economic restructuring. This conference will be our annual orientation for journalists who wish to learn more about the Soviet Union. The program is expanded beyond the day-long format to include an evening session with journalists returning from assignments in the USSR. This panel will feature Walt Rogers, the former Bureau Chief of ABC News in Moscow and Gary Lee (still unconfirmed at the time of this writing) the former Moscow Bureau Chief for the Washington Post. Conference sponsors are the Russian Research Center, the Nieman Foundation, and the Joan Shorenstein Barone Center on Press, Politics and Public Policy of the John F. Kennedy School of Government of Harvard University. A program and application form are enclosed. Contact Ms. Catherine Reed, (617) 495-4038, for more information.

RRC BOUTIQUE EXPANDS ITS LINE

In addition to its well-established line of T-shirts and sweatshirts for the discerning watcher of things Soviet, the Russian Research Center is pleased to announce an addition to its quality line of **Гарвард** products. We now have available silk ties with a very handsome alternating stripe and **Гарвард** pattern. We will soon be introducing a women's 100% silk scarf as well. What better gift could you find for the holidays ahead? An order

We would like to thank Barbara Severin for calling and informing us that a very abbreviated report of the 5-month production figures appeared in Vestnik Statistiki #7, p. 11.

USSR Foreign Exchange Quotations

Currency	27 July	3 Aug	10 Aug	14 Sept	28 Sept	5 Oct	12 Oct
£100 Sterling	108.17	107.56	106.80	106.05	105.14	106.49	106.77
100 Aust. sch.	4.81	4.77	4.73	4.80	4.77	4.78	4.80
$100 US	62.06	62.81	63.21	62.58	63.16	62.82	62.54
100 Fr. Francs	10.02	9.93	9.87	9.94	9.85	9.88	9.89
1,000¥ Japanese	4.73	4.72	4.72	4.69	4.68	4.69	4.72
10,000 Italian Lire	4.57	4.54	4.51	4.52	4.50	4.51	4.51
100 Swiss Francs	40.66	40.13	39.87	40.06	39.71	39.66	39.72
100 Deutsche Marks	33.82	33.41	33.25	33.81	33.55	33.62	33.73

SOVIET BALANCE OF TRADE WITH EASTERN EUROPE FOR THE FIRST HALF OF 1982-1988

(in million rubles)

Exports from the USSR

	1982	1983	1984	1985	1986	1987	1988
Bulgaria	2372	2880	3174	3156	3225	3050	3093
Czechoslovakia	2460	2855	3346	3317	3368	3375	3218
GDR	3093	3321	3583	3710	3826	3704	3489
Hungary	1991	1961	2266	2207	2311	2205	2215
Poland	2363	2595	2916	3089	3415	3042	3164
Romania	660	849	952	889	1355	1212	1200
Total exports:	12940	14461	16237	16368	17500	16588	16379
Balance of trade:	+694	+735	+1067	+415	+1354	-217	-620

Imports to the USSR

	1982	1983	1984	1985	1986	1987	1988
Bulgaria	2259	2573	2823	2912	3011	3317	3295
Czechoslovakia	2491	2766	2996	3246	3306	3480	3476
GDR	2902	3228	3772	3821	3488	3488	3358
Hungary	1793	1886	2042	2280	2349	2469	2408
Poland	1880	2382	2594	2611	2750	2894	3255
Romania	921	891	943	1083	1242	1157	1207
Total exports:	12246	13726	15170	15953	16146	16805	16999

SOVIET BALANCE OF TRADE: 1st Half of 1980 through 1988
(million rubles)

	Exports from the USSR									Imports to the USSR								
	1980	1981	1982	1983	1984	1985	1986	1987	1988	1980	1981	1982	1983	1984	1985	1986	1987	1988
Austria	280	392	346	271	381	370	286	169	238	160	258	251	380	481	403	437	312	359
Belgium	401	249	530	501	577	384	280	345	398	176	268	329	305	271	298	253	197	218
U.K.	320	349	416	502	691	549	591	674	782	516	631	354	369	395	392	301	287	320
Greece	187	350	275	173	224	238	102	110	160	44	71	78	93	64	69	33	21	40
Denmark	122	74	199	157	153	132	69	47	53	39	151	42	42	51	51	100	46	62
Spain	104	156	77	148	163	299	37	187	288	67	323	101	148	152	102	107	89	82
Italy	893	1066	1362	1446	1503	1019	757	838	828	429	498	592	793	679	659	726	860	831
Nether.	567	430	715	895	727	402	290	387	337	178	344	217	314	132	158	126	140	146
Norway	27	28	37	30	50	56	29	26	31	39	58	34	53	46	39	46	28	38
Germany	1067	1207	2059	1614	2314	1864	1588	1134	1253	1603	1586	1525	1893	1726	1680	1547	1417	1768
France	930	1082	1168	1140	1238	990	751	689	732	937	922	727	973	907	1006	685	649	551
Switzld	173	90	181	257	187	182	161	164	152	205	291	224	211	196	283	270	303	470
Sweden	142	93	159	293	293	235	142	189	206	132	207	207	145	132	177	148	137	125
Japan	471	407	390	388	409	456	471	449	545	907	1168	1532	1237	1036	1245	1293	770	966
Subtotal	5693	5973	7914	7815	8910	7176	5554	5408	6003	5432	6733	6213	6956	6268	6562	5965	5286	5976
Sub-Balance of Trade										-261	-760	+1701	+859	+2642	+614	-411	+122	+27
USA	87	57	76	132	139	147	143	102	145	764	892	1672	878	1272	1764	845	411	1114
Canada	15	28	14	19	9	8	6	8	9	321	489	554	651	388	408	266	275	261
Australia	3	8	6	3	6	11	5	5	6	441	381	411	278	312	402	410	217	189
NZ	1	2	3	1	3	2	2	2	4	115	96	166	108	31	51	63	50	50
Argentina	20	23	15	15	14	23	38	12	8	590	1060	840	798	727	769	126	225	181
Brazil	12	5	90	6	68	27	22	30	8	139	384	275	281	228	169	154	99	63
TOTAL	5831	6096	8118	7991	9149	7394	5770	5567	6183	7802	10035	10131	9550	9226	10125	7829	6563	7834
BALANCE OF TRADE										-1971	-3939	-2013	-1959	-77	-2731	-2059	-996	-1651
Finland							774	836	749							1082	1056	1138
TOTAL (With Finland included)							6544	6403	6932							8911	7619	8972
BALANCE OF TRADE (With Finland included)																-2367	-1216	-2040

Boston Sunday Globe FOCUS

THE SOVIET UNION

SUNDAY, NOVEMBER 6, 1988

Gorbachev policies don't travel well

Provinces show little evidence of heralded reforms

By Gabriel Schoenfeld

In view of the unprecedented policy changes issuing from the Kremlin at an ever-accelerating pace, Western onlookers can't help wondering how much the average Soviet citizen's life has been affected by *glasnost* and *perestroika*. During a recent trip to the far corners of the Soviet Union with a computer-technology exhibition sponsored by the United States Information Agency, I had a chance to see the sharp contrast between the showcase city of Moscow and the dreary life of the provincial towns.

After six months of travel to Tbilisi, Tashkent and Irkutsk, I came away with three powerful impressions. First, *perestroika* has so far had almost no effect on the lives of ordinary people in the provinces, who suffer under an economy of ubiquitous scarcity. Second, while *glasnost* has stirred up great hopes among a narrow, educated strata of the population, the average Soviet citizen is merely dumbfounded at the endless stream of newspaper and journal articles expressing sentiments that only two years ago would have been banned as anti-Soviet. As the party leaders call into question decades of unchallenged dogma, the man in the street no longer knows what to think or say. Third, the fashionable Western conceit that Marxism-Leninism is dead in the Soviet Union (as in "there are more Marxists in Cambridge, Mass., than in Moscow") is mistaken. While there is a segment of the society that is profoundly disillusioned with communist ideology, the common man in the Soviet Union not only accepts Marxist ideology, but thinks and speaks about politics entirely within its vocabulary.

An economy of scarcity

In all three of the cities we visited, a system of rationing was in effect in which basic staples are distributed by means of coupons as if it were wartime. Although local conditions varied, for meat and butter, the monthly allowance was 1 kilo or 2.25 pounds per month per person. One family told us their relatives in Moscow would send them packages of cheese and bologna on a monthly basis. In Tashkent, potatoes were a sore point. The central planning system in distant Moscow has dictated that Uzbekistan primarily grow cotton and import potatoes from other republics. Given the vagaries of the Soviet transport system, an inadequate supply of potatoes makes its way south to Tashkent, and those that do arrive are often rotten. In Irkutsk, sugar recently had been added to the list of rationed items and has become so scarce that it is now known as "white caviar."

It is this economy of scarcity that Mikhail Gorbachev is now attempting to overcome with *perestroika*. As an abstraction, *perestroika* is certainly popular. On the other hand, people are still waiting for it to come to their cities. The hostile reception that greeted Gorbachev during one visit to the Siberian city of Krasnoyarsk confirms what I observed: his reforms have so far left provincial life largely untouched.

Almost everyone I spoke with expects there will be a price reform that will raise the price of the heavily-subsidized basic foodstuffs, but people also expect that salaries will remain commensurate with prices. No one seems to believe that the virtually free housing and other types of subsidized consumption that people now enjoy will ever come to an end. A common refrain was that the leadership is now returning to "Leninist norms" of rule, and people seem to simply believe that this in itself will solve many of the problems afflicting Soviet society. Most Western economists don't share this optimism, and believe that even if *perestroika* is successful, economic conditions will deteriorate before they can improve.

The grumbling over shortages along with the relaxation offered by *glasnost* makes for lively local politics. In Irkutsk, the process of selecting delegates to the 19th Party Conference was under way, and this was a contentious issue, as were environmental concerns connected with the preservation of Lake Baikal.

Anti-Semitism is more violent

Apart from an environmental march one year earlier, these were the first spontaneous demonstrations in Irkutsk (in that they were not organized by the party) since October 1917. Participants carried placards, including one that read "Down with the despotism of fear." The Oblast secretary responsible for ideology addressed the crowd at the first meeting, and was heckled. People shouted "Why is there no toothpaste?" (Answer: Toothpaste is in short supply because you can make an alcoholic beverage out of it.) While these demonstrations certainly reflect a new openness in Soviet society, much remains unchanged.

While in Irkutsk we met with Jewish refuseniks, who recounted to us the intense anti-Semitism they encounter in their daily lives. Compared with the situation of refuseniks from Tbilisi, Tashkent and Moscow, where there are large Jewish communities, life here was far more threatening. A refusenik woman named Kogan was found murdered under a bridge here several years ago. Two other Jews also were murdered, and their assailants have never been caught. This has led to the conviction that the KGB had a hand in these crimes.

The capricious nature of rule that the refuseniks described to us was also in evidence at our exhibition. Plainclothesmen were dispersed throughout our pavilion. A number of Soviet visitors who either befriended American exhibit guides or who voiced criticism of the Soviet Union were visited in their homes by angry "workers" and warned not to come back to the exhibition. Some exhibit visitors were detained by the militia and interrogated. One young man who had befriended an American was detained, released and then, a week later, severely beaten on the head by a Komsomol detachment. While an element of fear was certainly palpable in the cities we visited, it was obvious to me that fear is not the sole or even the main basis by which the Communist Party today maintains its rule. Without question, the years of Stalinist terror have left their deep imprint on the society, but at least in Russia proper, as opposed to some of the other Soviet republics, it is largely cradle-to-grave propaganda that today has created an unquestioning and passive population.

The problem for Gorbachev in changing Soviet society is that 70 years of propaganda have worked too well. The average person either believes in the system that Moscow contemplates dismantling or can't imagine a better alternative. One doesn't have to worry about losing a job or an apartment, education is free, and medical care is free "in principle." If the quality of all of these ranges from bad to worse, now *perestroika* promises to improve it. The average person rarely encounters the harsher side of totalitarian rule. The Communist Party and the KGB are both considered prestigious places to work. The popular attitude toward censorship is "So what if you can't read Solzhenitsyn. He's an anti-Soviet writer anyway," or "Yes, *glasnost* is much needed, but don't use it to heap dirt onto our great Soviet history." Of course, people want food in their stores and are bitter about the empty shelves, but *perestroika* promises them that this will improve as well.

While it is clear that Gorbachev has roused the Kremlin into enthusiasm for sweeping reform, the provincial cities remain frozen in the torpor of the past. Soviet society was hammered into shape by Lenin and Stalin with great violence, and, like a resilient alloy forged at high temperatures, it is showing great resistance to change. The ideas, habits and dogmas of the past live on, confirming Karl Marx's words that "the tradition of all the dead generations weighs like a nightmare on the brain of the living." If Gorbachev knows, as he surely must, what is on the minds of his countrymen in cities like Tbilisi, Tashkent and Irkutsk, then the tradition of all the dead generations is the nightmare that today weighs upon him as he contemplates reforming the Soviet Union.

Gabriel Schoenfeld is a graduate student fellow at Harvard University's Russian Research Center.

Despite talk of economic reforms, the ordinary people in the provinces of the Soviet Union still suffer under an economy of ubiquitous scarcity.

AP photo